

Independent Auditor's Report

McClain County Economic Development Authority

Year Ending June 30, 2013

**McCLAIN COUNTY ECONOMIC
DEVELOPMENT AUTHORITY**
PURCELL, OKLAHOMA
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June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
McClain County Economic Development Authority
Purcell, Oklahoma 73080

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the McClain County Economic Development Authority, McClain County, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

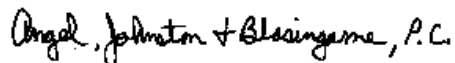
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the McClain County Economic Development Authority as of June 30, 2013, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
November 25, 2013

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	31,531
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<i>Total Current Assets</i>		31,531
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Fixed Assets

Buildings and Equipment		2,482,703
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Land		40,000
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<i>Total</i>		2,522,703
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Less Accumulated Depreciation		(213,164)
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<i>Total Fixed Assets</i>		2,309,539
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<i>Total Assets</i>		2,341,070
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LIABILITIES

Current Liabilities:

Notes Payable		44,625
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<i>Total Current Liabilities</i>		44,625
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Non-Current Liabilities:

Notes Payable		7,568
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<i>Total NonCurrent Liabilities</i>		7,568
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<i>Total Liabilities</i>		52,194
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NET POSITION

Net Investment in Capital Assets		2,257,345
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Restricted		0
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Unrestricted		31,531
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<i>Total Net Position</i>	\$	2,288,876
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The accompanying notes are an integral part of the financial statements.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
Year Ended June 30, 2013

Operating Revenue:

Administration Fees	\$ 12,944
Lease Revenue	2,000
Arbitrage Rebate	30,176
Rodeo Donations	26,250
Ticket Sales	6,333
Total Operating Revenue	<u>77,703</u>

Operating Expenses:

Professional Fees	2,990
Arbitrage Refund	30,432
Rodeo Expenses	20,480
Depreciation Expense	53,752
Total Operating Expenses	<u>107,654</u>

Net Operating Income (Loss)	(29,951)
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Non-Operating Revenue(Expense)

Contributed Capital	73,608
Interest Income	265
Interest Expense on Loan	<u>(2,273)</u>

Total Non-Operating Revenue (Expense)	71,600
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Net Income (Loss)	41,649
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Net Assets-Beginning of Year	<u>2,247,227</u>
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Net Assets-End of Year	<u><u>\$ 2,288,876</u></u>
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The accompanying notes are an integral part of the financial statements.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
Year Ended June 30, 2013

Cash flows from operating activities:

Cash received from customers	\$ 51,453
Cash received from contributions	26,250
Cash paid to vendors	<u>(53,902)</u>
Net Cash provided (used) by operating activities	23,800

Cash flows from capital and related financing activities:

Interest paid by McClain County	2,273
Principal paid by McClain County	43,308
Principal paid on capital debt	(43,308)
Interest Expense	<u>(2,273)</u>
Net Cash provided (used) by capital & related financing activities	0

Cash flows from investing activities:

Interest income	265
Net Increase (Decrease) in cash and cash equivalents	24,066
Cash & Cash equivalents at beginning of year	<u>7,465</u>
Cash & Cash equivalents at end of year	<u><u>31,531</u></u>

**Reconciliation of Operating Income to Net Cash Provided
(used) by Operating Activities**

Operating Income	(29,951)
Adjustment to Reconcile Operating Income to Net Cash Provided	
Depreciation Expense	<u>53,751</u>
Net Cash Provided (used) by Operating Activities	<u><u>\$ 23,800</u></u>

The accompanying notes are an integral part of the financial statements.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

1.A. Financial Reporting Entity

McClain County Economic Development Authority, a public trust, created September 20, 1979, for the benefit of McClain County, Oklahoma, and an agency of the State of Oklahoma. The Authority was created under provisions of the Oklahoma statutes by a Declaration of Trust to furnish the Beneficiary with services and facilities, promote local economic development, by participating to the greatest degree possible in promoting and attracting new business and industry to McClain County and assisting existing business and industry to expand employment, payroll and benefits. In accomplishing said purpose, the Authority may make financial inducements or take other necessary action to attract and retain business and industry to the McClain County so long as such actions are consistent with state and federal statutes and constitutional limitations. The Authority is empowered to borrow money and to pledge assets, properties and revenue as security against its borrowings. The Authority has no taxing power and is not legally required to adopt a budget. Budgetary comparison schedule is not presented. McClain County Economic Development Authority generally does not acquire any assets or incur any liability when it issues bonds for eligible entities. It may earn and collect administrative fees however and must be informed of the unpaid balances. If however McClain County Economic Development Authority manages the assets and liabilities and does not assign them, the assets and liabilities would be recognized. In the long term debt information section additional information discloses the outstanding obligation, which the authority has facilitated.

Related Organizations

McClain County - McClain County is the beneficiary of the trust. The elected McClain County commissioners are the Authority's trustees. The Authority's financials are material to McClain County. Therefore the Authority is considered to be a component unit of McClain County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. McClain County Economic Development Authority is a component unit of the governmental entity of McClain County, Oklahoma. McClain County's financial information is not presented in these financial statements. McClain County financial audits are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

1.B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. In other words, revenue would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities and Net Position

Cash & Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Notes Payable - Notes Payable to be repaid from the authority resources are reported as liabilities in the balance sheet. The Authority had no notes payable as of the balance sheet date.

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

1.D. Assets, Liabilities and Net Position (continued)

- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

1.E. Revenues and Expenses

Operating and Nonoperating Revenues - Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

Expenses - The Authority reports expenses relating to the use of economic resources.

1.F Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

Note 2 – Detailed Notes on Transaction Classes/Accounts

2.A. Cash and Investments

Deposits and Investments - The Authority does not have a written investment policy that limits its investment choices. Investments are in compliance with Oklahoma statutes.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority does not have a written policy for custodial risk. However, the Authority’s balances did not exceed the \$250,000 FDIC insurance level during the fiscal year. Bank deposits on June 30, 2013 were \$31,606.

2.B. Restricted Assets

The Authority does not have any restricted assets.

2.C. Capital Assets

The Authority’s capital assets are capitalized and stated at cost. Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

2.C. Capital Assets (continued)

The range of estimated useful lives by type of asset is as follows:

Buildings	45 years
Heavy Equipment	15 years
Light Equipment	9 years

The following is a summary of the capital assets as of June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance
Land (not depreciable)	\$ 40,000	\$ 0	\$0	\$40,000
Buildings	2,426,676	0	0	2,426,676
Equipment	28,000	28,027	0	56,027
Accumulated Deprec.	<u>(159,411)</u>	<u>(53,753)</u>	0	<u>(213,204)</u>
Total Capital Assets	<u>\$2,335,265</u>	<u>\$ (25,726)</u>	<u>\$ 0</u>	<u>\$2,309,539</u>

McClain County purchased equipment and passed ownership to the Authority. The equipment is shown as contributed capital to the Authority.

2.D. Long-Term Debt

MCEDA- Conduit Debt – The McClain County Economic Development Authority has the following conduit debt outstanding at June 30, 2013, in the form of Lease Revenue Bonds:

	Original Issue	Outstanding June 30, 2013
MCEDA – Blanchard Public Schools (2008)	\$24,385,000	\$20,570,000
MCEDA – Newcastle Public School (2006)	12,860,000	3,285,000
MCEDA – Purcell Public Schools (2006)	9,230,000	7,260,000
MCEDA – Purcell Public Schools (2010)	2,780,000	2,345,000
MCEDA – McClain County (Energy Mgmt.)	572,707	320,230
MCEDA – Cleveland Co. Home Loan Authority (Mortgage Backed Securities Program 2009))	<u>20,000,000</u>	<u>0</u>
Total	<u>\$71,677,707</u>	<u>\$33,780,230</u>

This debt is considered non-commitment debt to the Authority since debt payments are made solely by listed entities. Payments are made directly by the entities to the trustee banks. In the event of default by the schools, the Authority has no obligation, in substance, to make any payments on the debt since the note receivable, financing agreements and mortgages on the property with the school are the only security for the debt. As a result of the non-commitment determination, the Authority's indebtedness and related receivables from the school are not recorded in the financial statements.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

2.D. Long-Term Debt (continued)

The Authority entered into a loan agreement with the Community Energy Education Management Program (CEEMP), of the State of Oklahoma, for the purpose of making improvements to County facilities to improve energy efficiency. The note is a six-year note for \$250,000, at 3% (three percent) annual interest, repayment began on October 15, 2008 and will mature on September 15, 2014.

	Beginning <u>Balance</u>	<u>Additions</u>	Principal <u>Paid</u>	Interest <u>Paid</u>	Ending <u>Balance</u>
CEEMP - Note Payable	\$95,502	\$0	\$43,308	\$2,273	\$52,194

Debt Service Schedule:

	<u>Fiscal Year</u>	Principal <u>Payments</u>	Estimated <u>Interest</u>
Current Portion	2013-2014	44,625	956
Non-Current Portion	2014-2015	<u>7,568</u>	<u>28</u>
	Total	\$52,193	\$ 984

Based on the payment schedule on the CEEMP note payable and projected revenue of the Authority, the Authority has experienced cash flow problems in meeting debt service requirements. County officials have committed to use sales tax funds pledged to economic development to fund loan payments. The County utility savings related to this project are pledged as collateral on the loan payments.

Note 3 - Risk Management

The Authority is exposed to various risks of loss related to torts, errors and omissions. At this time the Authority carries no surety bonds or other types of insurance.

Note 4 – Use of Estimates

The preparation of financial statements in conformity with modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 5 - Commitments and Contingencies.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. While legal proceedings cannot be foreseen, the Authority feels that any settlement or judgment would not have a material effect on the financial condition of the Authority.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 5 - Commitments and Contingencies. (continued)

The Authority is dependent upon repayment of bonds solely from the beneficiary of the bond issues. If the beneficiary defaulted on the bond payments it would not have a significant impact on the Authority's financial condition. Conduit debt is non-recourse debt.

Note 6 – Qualified Mortgage Certification Program

The Authority, on December 4, 2006, adopted the “qualified Mortgage Credit Certification Program”. These program issues certified tax credits to qualified applicants under section 25 of the Internal Revenue Code of 1986. There is a \$1,000 fee charged to qualified applicants. The Mortgage Credit Certification Administration Corporation receives \$800 per applicant and the remaining \$200 is for attorney fees.

*Internal Control
and
Compliance Report*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Trustees
McClain County Economic Development Authority
Purcell, Oklahoma 73080

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the McClain County Economic Development Authority, a component unit of McClain County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, November 25, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered McClain County Economic Development Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 13-01.

Compliance and Other Matters

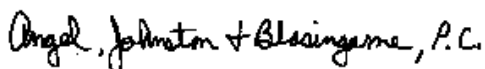
As part of obtaining reasonable assurance about whether McClain County Economic Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

McClain County Economic Development Authority's Response to Findings

McClain County Economic Development Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.

Chickasha, Oklahoma

November 25, 2013

McClain County Economic Development Authority
Schedule of Findings
For the Year Ended June 30, 2013

13-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions; receives checks, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares financial summaries.

Cause – The Authority’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Management response – Management agrees.